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December 30, 2024

Mr. Jud Ashman, Mayor,
and Members of the Gaithersburg City Council, and
Members of the Gaithersburg City Planning Commission
City of Gaithersburg
31 South Summit Avenue
Gaithersburg, MD 20877-2030

Re: Z-9928-2024 Gateway Lakeforest
481 N. Frederick Avenue, 101 Lakeforest Boulevard & 702 Russell Avenue
(collectively the “Property”)
Response to City of Gaithersburg Office of Economic Development’s (“OED’s”)
October 21, 2024 Memorandum (“OED Memorandum”)

Dear Mayor Ashman, Council Members and Planning Commission Members:

I am writing on behalf of the applicant, 417 Development, LLC (the “Applicant”), in response to OED’s evaluation of Z-9928-2024, Gateway Lakeforest (the “Project”). The Project proposes to rezone the Property from the C-2 Zone to the Corridor Development (CD) Zone, raze the existing 40-year-old office buildings at 481 N. Frederick Avenue and 101 Lakeforest Boulevard for redevelopment with a multifamily building containing up to 410 units, amenity space and structured parking over up to 20,100 square feet of ground floor commercial, and retain the office building at 702 Russell Avenue for employment uses. As articulated below, the Applicant disagrees with OED’s evaluation of the Project because it is unsupported by the market, inconsistent with the City of Gaithersburg (“City’s”) 2022 Strategic Plan, the 2001 Special Study Area Frederick Avenue Corridor Land Use Plan (the “Corridor Plan”), the City of Gaithersburg 2009 Master Plan Land Use Element (“Master Plan”) and overlooks many relevant facts.

The Applicant met with OED on November 12, 2024, to gain clarity on the findings and conclusions set forth in the OED Memorandum because contrary to the feedback from City staff, it infers residential may be an inappropriate use at the corner of N. Frederick Avenue and Lakeforest Boulevard.¹ At the November 12, 2024 meeting,

¹ In January 2022, the Applicant commenced with City staff, including, without limitation OED, discussions, meetings and multiple review cycles of draft application plans and documents (the soft submission process) for the Project including the multifamily building at the corner of N. Frederick Avenue and Lakeforest Boulevard. To say the Applicant was shocked to receive the OED Memorandum is an understatement.

OED clarified its conclusion, explaining that the Project should increase the amount of proposed ground floor retail in excess of 20,100 square feet. This conclusion, however, is unsupported because the OED Memorandum neglects to consider all relevant facts.

I. Facts Missing from the OED Memorandum

OED overlooks that there is more than one strategy in the City's 2022 Strategic Plan applicable to the Project. OED identifies Strategy 3.2 as the only "relevant component" of the 2022 Strategic Plan applicable to the Project evaluation.² Strategy 3.2 focuses on employment and businesses within the City and states that:

Strategy 3.2: Develop Gaithersburg as a regional employment center that attracts and supports an array of entrepreneurial and established businesses from a variety of industries.

Key Action Item 3.3.2: Develop a methodology for assessing aging properties.

Key Action Item 3.3.6: Perform real estate market analysis and feasibility to forecast post-COVID demand and estimate fiscal impacts on City revenue.

OED relies upon Strategy 3.2 to raise concerns with the Project's proposed multifamily development. This disregards Strategies 10 and 11, which support the Project and must be factored into OED's evaluation as identified economic development strategies. Strategies 10 and 11 support the development of residential uses at the corner of N. Frederick Avenue and Lakeforest Boulevard by promoting a mix of housing options throughout the City and encouraging reinvestment in aging commercial properties.³ The Project achieves both these strategies by proposing a significant financial investment in the Property necessary to redevelop two existing aged commercial office buildings with a multifamily building that will provide a mix of unit types at a mix of price points on the east side of I-270.

Strategy 3.2 clearly also supports the residential component of the Project. OED narrowly interprets Strategy 3.2 to conclude that residential redevelopment is unsupported at the Property when the language expressly seeks development in the City that "supports an array of entrepreneurial and existing business." Housing is a

draft Project application plans and documents.

² OED purportedly utilizes criteria to evaluate the Project from the City's 2022 Strategic Plan that is unavailable to the Applicant. The OED Memorandum identifies "Key Action Item 3.3.2" and "Key Action Item 3.3.6" as subcomponents of Strategy 3.2. The 2022 Strategic Plan available on the City's website at <https://www.gaithersburgmd.gov/home/showpublisheddocument/11160/637915867606230000> does not appear to include Key Action Items and identifies the referenced strategy as Strategy 9.

³ Strategy 10 of the 2022 Strategic Plan states as follows "[i]mplement strategies that encourage reinvestment in again commercial and multi-family properties."

Strategy 11 of the 2022 Strategic Plan states as follows "[p]ursue strategies to provide a mis of housing options for a variety of income levels."

major and necessary support for businesses, existing and future, that cannot be overlooked by the OED Memorandum.

The Project will also increase the City's tax base pursuant to Findings 1 and 2 of the OED Memorandum. Finding 1 perceives that the Project will result in a loss of available land for commercial development and a loss of commercial tax revenue. This is in stark contrast to the Project's proposed mixed-use zoning and Finding 2. Finding 2 characterizes the existing office buildings at 481 N. Frederick Avenue and 101 Lakeforest Boulevard as "obsolete." OED explained on November 12, 2024, that "obsolete" means that the land is more valuable without the existing improvements. Based on OED's definition of obsolescence, any new buildings constructed upon the Property, commercial or residential, will increase the property value because the only value is attributed to the land. It is therefore logical that the Project, which proposes the redevelopment of the Property with a new multifamily building, will increase the property value beyond its current value and increase the City's tax base.

OED relies upon an incomplete characterization of the Frederick Avenue Corridor to justify retail over residential uses at the Property. In Finding 2, OED posits that 481 N. Frederick Avenue and 101 Lakeforest Boulevard are more attractive for retail and commercial uses based on the amount of vehicular traffic through the corridor. This ignores the multi-modal characteristics of the Frederick Avenue Corridor, which is planned for future BRT and served by the Lakeforest Transit Center that provides connectivity to the Metro within a ½ mile walk of the Property. It is also contrary overarching planning policies in the City (and County) that desire growth in the form of infill residential density along these prime multi-modal corridors.

Despite OED's assertion in Finding 4, the proposed residential units will not struggle to retain long-term value. Rather, the Property's proximity to transportation, employment hubs, retail services and the proposed mixed-used development at the Lakeforest Mall, which includes, residential, commercial, retail, employment, parks and amenities on 100 acres, makes the Property highly competitive. The City's residential market is robust, with strong demand for well-located multifamily units.

OED's reliance upon the development pipeline in the OED Memorandum to support its assertion is misplaced because it includes active and inactive development pipeline projects dating back to 2008. Out of the 6,901 units in OED's pipeline, 3,658 units are on the inactive pipeline and identified as unlikely to be constructed, leaving 3,242 units as potentially to be built. This data confirms that the number of active pipeline projects will not meet the City's estimate that 6,700- 9,700 additional units are needed to meet the household growth demand by 2045. See, 2021 Master Plan for Lakeforest Mall ("Lakeforest Master Plan"). This demand aligns with the City's steady annual population growth rate of around 2% as set forth in the City's July 2024 Population and Housing Growth Study, as follows:

Table 2: Population Growth in Gaithersburg (2020-2024)

Year	Population	Growth Rate (%)
2020	71,200	1.2%
2021	72,050	1.2%
2022	73,500	2.0%
2023	75,200	2.3%
2024	76,800	2.1%

The Project is necessary for the City to meet its future housing goals and respond to the market demand attributed to the current housing shortage.

II. Market Trends Support Mixed-Use with Right-Sized Retail Space

The market does not support additional retail within the Project. Rather, the market and data show a growing demand for mixed-use developments that cater to both residential and retail needs by providing limited retail that can be sustained by the built-in customer base. OED's perceived need in Finding 5 for additional retail space is contradicted by the City's retail vacancy rate, amount of available retail space and net absorption rate.

The City currently has over 1.5 million square feet of retail space, with a vacancy rate of 11.6%, up 0.4% from the previous period. *See, CoStar Realty Information Inc. (2024, November 7), Search analytics: Key metrics. Costar Analytics.* This rate is evidence of market oversaturation. High vacancy rates ultimately lead to lower foot traffic for existing businesses, reduced lease rates, and revenue losses for landlords. These issues not only affect immediate financial returns but also make it more difficult to sustain long-term profitability, making the City unattractive for larger retail spaces.

The current retail space availability rate is 19%, which translates to approximately 292,000 square feet of leasable space. *See, CoStar Realty Information Inc. (2024, November 7), Search analytics: Key metrics. Costar Analytics.* To the best of our knowledge, there are no new retail construction projects underway in the City and existing projects, such as Travis Avenue, propose to replace entire retail centers with mixed use sustainable development. This pause in new retail development highlights how difficult it is to attract long-term tenants and shows that developers are cautious. It also results in Landlords needing to offer significant lease concessions, such as rent-free periods and tenant improvement packages that can exceed \$45 per square foot, to fill space.

Notwithstanding, the average retail space in Gaithersburg remains vacant for 25 months, with a median time-to-lease of 57.6 months. This long duration demonstrates

the difficulties landlords face in finding and keeping tenants. The mix of market saturation, consumer preferences for mixed-use spaces, and competition calls for new leasing strategies. Retailers are looking for locations like the Project that combine residential, office, and commercial spaces to support ongoing customer engagement and business.

Over the past year, the net absorption rate was -5,500 square feet, showing a 73.9% improvement compared to previous, larger deficits. *See, CoStar Realty Information Inc. (2024, November 7), Search analytics: Key metrics. Costar Analytics.* However, this figure still points to a negative trend where more space is vacated than leased. This problem reflects broader issues like changing consumer behavior that values experiences and services over traditional shopping. The trend is toward experiential retail where shoppers prefer venues that offer more than just shopping but include dining and entertainment. This trend pushes traditional retailers to rethink their business models and seek partnerships to create a more engaging shopping experience. Implementing these changes often requires significant capital, which can be challenging to secure, especially with the high operational costs and labor shortages. In addition, the rise of e-commerce, which has grown by an average of 15% annually over the past decade, continues to draw customers away from the brick-and-mortar retailers. *See, U.S. Census Bureau. (2024). Quarterly Retail E-commerce Sales.*⁴ The amount of retail proposed by the Project is right-sized to avoid these problems and to create a sustainable development.

III. Residential-Retail Mixed-Use Is Appropriate for the Property

To dissuade the Applicant from pursuing residential development at the Property, OED identifies in Finding 6 “recent” examples of redevelopment projects within the City that transition office to a nonresidential use. These projects are not that recent though, as some are pre-pandemic (704 Quince Orchard Road) and commenced as early as 2016 (Zoning Map Amendment for Novavax located at 700 Quince Orchard Drive). The transitional uses identified by OED include bio, industrial, medical and retail. However, the retail transitional use consists of the retail pad sites (Chick-Fil-A and Sheetz) at 700 N. Frederick Avenue that are not part of a vertical mixed-use development. Industrial, except integrated light manufacturing, is not an appropriate use for the Property and many of the industrial projects identified by OED are on properties that abut I-270. OED has previously advised the Applicant that bio/life science uses are oversaturated in the City and inappropriate for the Property. The office building located at 702 Russell Avenue that will be retained by the Project includes medical uses.

⁴ The referenced quarterly report of the *United States Census Bureau*, can we located here: <https://www.census.gov/retail/ecommerce.html>)

Based on the examples of transitional uses, OED and the Applicant both agree that redeveloping the existing office buildings at 481 N. Frederick Avenue and 101 Lakeforest Boulevard with new office buildings is not supported by the market. There has been a significant reduction in office space demand in the area and the region. According to the City's 2024 Frederick Avenue Corridor Economic Report, office vacancy rates have increased by 7.2% over the last four years, highlighting the need to reconsider office-heavy land use in the Corridor:

Table 1: Office Vacancy Rates in the Frederick Avenue Corridor (2020-2024)

Year	Vacancy Rate (%)
2020	14.5
2021	16.7
2022	18.9
2023	20.3
2024	21.7

Contrary to OED's Finding 6, there is support for a strategic mixed-use redevelopment at 481 N. Frederick Avenue and 101 Lakeforest Boulevard that includes residential and right-sized retail.

IV. City Planning Policies Support Mixed-Use Development at the Property

OED does not consider the City's land use and planning policies in its evaluation of the Project. The Project is consistent with the recommendations of both the Master Plan and Corridor Plan. The Corridor Plan identifies the need for revitalization within the Corridor through infill mixed-use development. Corridor Plan, p. 1; Master Plan p. 79. It emphasizes creating a pedestrian-friendly environment and attracting new residents to support retail and service industries in the area. Corridor Plan, p. 12 and 15. It explicitly calls for the redevelopment of aging commercial structures with a blend of residential, retail, and mixed-use environments.

The Master Plan identifies the Corridor as a prime candidate for future redevelopment and emphasizes the need for mixed-use developments to support the growing demand for housing, especially near key commercial and transit hubs. Master Plan p. 90-91. To further these goals, the Master Plan recommends CD zoning for the Property and a balance of commercial-office-residential land uses. *Id.* The Project meets all the City's land use and planning objectives by introducing a sustainable mix of residential units and retail space, enhancing the area's walkability and contributing to local economic activity.

V. Conclusion

The Project addresses the City's current and future needs for housing, economic development, and sustainable growth by redeveloping outdated office space into a vibrant, mixed-use community. The retail component of the Project is tailored to meet neighborhood needs, encouraging walkability and reducing reliance on car-centric developments. For these reasons, the Project represents an important step in ensuring the City remains a competitive, livable, and thriving city. We strongly urge you to move the Project forward as proposed by the Applicant.

Very truly yours,



Casey L. Cirner

cc: Thomas Lonergan-Seeger, Assistant City Manager
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